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December 22, 2003

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: D.T.E. 03-118, Cambridge Electric Light Company and Commonwealth
Electric Company – 2003 Reconciliation Filing

Dear Secretary Cottrell:

Cambridge Electric Light Company ("Cambridge") and Commonwealth Electric Company ("Commonwealth") (collectively, the "Companies") hereby file this response to the comments filed by the Attorney General on December 17, 2003. For the reasons set forth below, the Companies' tariffs should be approved effective January 1, 2004, subject to later review and reconciliation in accordance with the terms of the reconciling rate elements as previously approved by the Department of Telecommunications and Energy (the "Department").

The Attorney General makes three requests of the Department: (1) initiate a formal investigation of the reconciliation filings; (2) reject the Compan[ies]' redesigned distribution rates, including the implementation of the pension adjustment factor; and (3) require the Compan[ies] to file new tariffs, documentation and workpapers supporting rates for effect January 1, 2004, consistent with the Department's precedent (Attorney General Comments, at 3). The Companies will address only the first two, since the third assumes changes are necessary to implement the second issue.

The Companies have no objection to the Attorney General's first request. Each year, the Department conducts a formal investigation of the Companies' reconciliation case after final costs and revenues are submitted during the first quarter of the subsequent year. The Companies fully expect to be subject to an investigation of the reconciliation of 2003 costs and revenues, and look forward to working with the Attorney General to settle those issues, as we have in the past.

As to the issue of "redesigned distribution rates," there are two elements raised by the Attorney General. One is the pension adjustment factor ("PAF"), which has been

filed in compliance with the Department's order in D.T.E. 03-47-A. The PAF goes into effect on January 1, 2004 and affects the size of the transition charge because of the requirement that the Companies meet the statutory inflation-adjusted 15 percent rate reduction for customers taking Standard Offer Service. Although the PAF filed in compliance with D.T.E. 03-47-A was used in designing rates for this filing, the PAF itself was not filed in this docket and any issues relating to the PAF filing are being considered by the Department in its review of the compliance filing. Accordingly, whatever issues the Attorney General may have with regard to the PAF filing, it is not a subject for substantive consideration in this docket.

The Attorney General points to the Department's Letter to Electric Distribution Companies dated December 17, 1999, as permitting the type of rate redesign proposed by the Companies if necessary to achieve the 15 percent rate reduction, and to avoid distribution revenue shortfalls and unacceptably large transition charge deferrals (Attorney General Comments at 4, n.9). The Attorney General also claims, incorrectly, that neither the Companies' initial filing nor its responses to the Department's information requests "meets the[se] threshold requirements" (*id.*). He argues that to review the proposed rate redesign, the Companies should also demonstrate that it is based on current billing determinants and that the rates are based on "the most recent fully allocated cost of service study..." (*id.* at 3, n.6).

As an initial matter, the Companies have complied with the statutory requirement that each rate class and each customer bill receive the mandated, inflation-adjusted 15 percent rate reduction for Standard Offer Service in accordance with the Restructuring Act and the Companies' Department-approved Restructuring Plan. See Exhibit CAM/COM-HCL at 9-10; Exhibit CAM-HCL-2; Exhibit COM-HCL-2; Exhibit CAM-HCL-4; and Exhibit COM-HCL-4. Moreover, the Attorney General is wrong in asserting that fully allocated costs studies are necessary to support the rate-design changes. It is not possible to apply traditional cost-allocation principles while simultaneously complying with the need to maintain the statutory 15 percent rate reductions, as directed by the Department. The Attorney General is also wrong in claiming that the Companies have failed to demonstrate that the rate-design changes are not based on current billing determinants. The proposed rates are shown to be revenue-neutral based on 2002 billing determinant, the most current calendar-year data available.¹ See Exhibit CAM/COM-HCL at 5-6; Exhibit CAM-HCL-3; Exhibit COM-HCL-3.

Finally, the need for the proposed rate design changes has already been demonstrated by the Companies. Over the past several years, customers have received rate reductions in excess of the 15 percent rate reduction, largely because of the inability

¹ Using the most current billing determinants also helps to avoid exacerbating any interclass rate inequities.

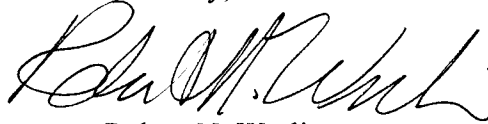
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to perform revenue-neutral rate redesigns in accordance with the distribution rate freeze that expired earlier this year (Exhibit CAM/COM-HCL at 4-5). The size of the rate reductions in past years for typical residential customers is listed on Attachment 1, hereto. Because of these large rate reductions, the level of deferrals is larger than it otherwise would have been. In the absence of the rate redesign proposed in this case, the additional net transition-charge deferrals for the Companies would be nearly \$5 million. See Response to Information Request DTE-1-4. There are no benefits to customers for these additional deferrals since they will have to pay all transition costs and will pay higher carrying charges if deferrals are increased. Since the mandated 15 percent rate-reductions will be implemented, there is no need to create further reductions, which will have to be repaid, with carrying charges, at a later date. . As the Department has recognized in similar contexts, the benefits of avoiding unnecessary deferrals and associated carrying charges is an important objective. Letter Order in Standard Offer Fuel Adjustment Filings, D.T.E. 00-66, 00-67, 00-70 (December 4, 2000); CGAC Gas Deferrals, D.T.E. 01-09, et seq. at 8 (2001).

Accordingly, the Department should find that the Companies have complied with the requirements of the Restructuring Act and the Department-approved Restructuring Plan and approve the proposed rates for effect January 1, 2004.

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert N. Werlin", written in a cursive style.

Robert N. Werlin

Attachment

cc: Service List

Attachment 1**Commonwealth - Rate R-1 @500 kWh**

<u>Date</u>	<u>Bill*</u>	<u>% Change Over Prior Yr</u>	<u>Inflation Factor</u>	<u>% Change Over Prior Yr</u>	<u>Inflated Rate</u>	<u>Percent Reduction</u>
Pre-RAD	\$ 70.92		1.000		\$ 70.92	
3/1/98	\$ 63.83	-10.0%	1.000	0.0%	\$ 70.92	10.0%
1/1/99	\$ 62.75	-1.7%	1.024	2.4%	\$ 72.64	13.6%
9/1/99	\$ 62.64	-0.2%	1.042	1.8%	\$ 73.92	15.3%
1/1/00	\$ 64.09	2.3%	1.065	2.2%	\$ 75.53	15.1%
1/1/01	\$ 66.04	3.0%	1.109	4.1%	\$ 78.65	16.0%
1/1/02	\$ 66.51	0.7%	1.123	1.2%	\$ 79.62	16.5%
1/1/03	\$ 67.61	1.7%	1.145	1.9%	\$ 81.17	16.7%
1/1/04	\$ 70.42	4.2%	1.168	2.1%	\$ 82.85	15.0%

Cambridge - Rate R-1 @500 kWh

<u>Date</u>	<u>Bill*</u>	<u>% Change Over Prior Yr</u>	<u>Inflation Factor</u>	<u>% Change Over Prior Yr</u>	<u>Inflated Rate</u>	<u>Percent Reduction</u>
Pre-RAD	\$ 60.17		1.000		\$ 60.17	
3/1/98	\$ 54.15	-10.0%	1.000	0.0%	\$ 60.17	10.0%
1/1/99	\$ 51.26	-5.3%	1.024	2.4%	\$ 61.63	16.8%
9/1/99	\$ 51.13	-0.3%	1.042	1.8%	\$ 62.72	18.5%
1/1/00	\$ 46.54	-9.0%	1.065	2.2%	\$ 64.08	27.4%
1/1/01	\$ 55.42	19.1%	1.109	4.1%	\$ 66.73	17.0%
1/1/02	\$ 55.09	-0.6%	1.123	1.2%	\$ 67.55	18.4%
1/1/03	\$ 57.41	4.2%	1.145	1.9%	\$ 68.86	16.6%
1/1/04	\$ 59.73	4.0%	1.168	2.1%	\$ 70.29	15.0%

* Excludes standard offer service fuel adjustment, which is not subject to the 15 percent rate-reduction requirement.